GOVERNMENT OF INDIA
STEEL
LOK SABHA

STARRED QUESTION NO:23
ANSWERED ON:21.11.2000
LOSSES IN PUBLIC SECTOR STEEL PLANTS
ANANTA NAYAK;BHARTRUHARI MAHTAB

Will the Minister of STEEL be pleased to state:

(a) whether the Government propose to set up a high level committee to find out the reasons for some public sector steel plants running in loss, particularly Rourkela Steel Plant;

(b) if so, the details thereof;

(c) whether the Government have received any representations from the public or from the Government of Orissa to reconsider the decision to privatise the Rourkela Steel Plant;

(d) if so, the details thereof;

(e) the action taken by the Government in this regard; and

(f) the steps taken by the Government to protect the interests of the employees of the said Plant?

Answer

MINISTER OF STATE FOR STEEL (SHRI BRAJA KISHORE TRIPATHY)

(a) No, Sir.

(b) Does not arise. However, a committee to enquire into the reasons for cost and time overruns in Durgapurand Rourkela Steel Plants, which are one of the factors for losses, has been set up.

(c) to (f): Government has not taken any decision to privatise Rourkela Steel Plant.

Kindly see Lok Sabha Starred Question No.23 for 21-11-2000 by S/Shri Ananta Nayak and Barhtruhari Mahtab regarding losses in public section steel plants.

The question seeks information about setting up of high level committee to find out the reasons of losses of public sector steel plants, particularly RSP, whether some representation were received from Public and Govt. of Orissa to reconsider the decision to privatise RSP, details and action taken by Government and steps taken by the Government to protect the interest of employees of said plant.

In the above connection, it is stated that Government have not set up any high level committee to find out losses of public sector steel plants, including RSP. Shri Sanathan Bisi, ex-member of Parliament(Rajya Sabha) has written to Prime Minister in March, 2000 that people at large are seriously opposing move to privatise RSP. SM had informed to Shri Bisi that there was no move at present to privatise the RSP.

In view of what has been stated above, draft reply to the question is put up for consideration/approval.

(Note for Supplimentary to the question will be prepared separately.)

Financial and business restructuring of SAIL

The declining prospects of Steel Authority of India, beginning in the mid-nineties necessitated a thorough overhaul of the structure and finances of India`s flagship steelmaker. To make SAIL competitive, a financial and business restructuring plan was approved by the Government in February, 2000.

2. The objectives of the financial and business restructuring of SAIL are as under:-

(a) reducing the debt burden of the company by writing off its loans from the Steel Development Fund and also cleaning up the balance sheet of its ailing subsidiary, IISCO,

(b) offering government guarantees to enable it to raise loans to retire earlier debts and finance a Voluntary Retirement Scheme to rightsize manpower.

(c) divesting its non core activities-power and oxygen plants, special steel business and a fertilizer plant. This was expected to enable it to concentrate on the core activity of production of mild steel.

(d) divest IISCO in a joint venture with SAIL as a minority partner.

3. Status of the Financial and business restructuring is as under:

Item Status Financial Restructuring of SAIL worth RS.8454 crores.

(a) by waiving loans advanced to it from Steel Development Fund and Rs.381 crore from the Government of India. Completed.

(b) Provision of Government guarantees for raising Rs.1500 crore from the market for meeting repayment obligations on past loans during 1999-2000. Guarantee given.

(c) Provision of Government guarantee with 50% subsidy for loan and interest thereon of Rs.1500 crore to be raised from market to finance VRS in SAIL. Proposal from SAIL has not been received for the guarantee.

Business Restructuring of SAIL

Divestment of Power Plants

- 2.60 MW Captive Power Plant - II at the Rourkela Steel Plant and the Central Power Training Institute at Rourkela.
- 2.60 MW Captive Power Plant - II at Durgapur Steel Plant.
- 2.55 MW (plus 12 MW Back Pressure Turbine) Captive Power Plant - I at Bokaro Steel Plant.
- 3.60 MW Captive Power Plant - II and steam generating capacity of 660 MT/hour at the Bokaro Steel Plant.

Items completed :

- A subsidiary company formed on 8th February, 1999
- Merchant Bankers appointed on 10th September, 1998
- Information Memorandum (IM) alongwith other details and draft key agreement issued to NTPC.
- AGM held in May, 2000.
- Plant visits as part of due diligence have been completed in September, 2000.

Items not completed :

- Invitation of price bids and selection of partners had to be completed by October, 2000 but this could not done as the offer from NTPC has not yet been received.

- Divestment of Oxygen Plant - 2 at Bhilai Steel Plant.

Items completed :

- Merchant Bankers appointed on 11th February, 1999.
- Subsidiary company formed on 9th February, 1999.
- Advertisement for `Expression of Interest` (EOI) issued on 30th March, 2000. (last date for receiving EOI extended upto 28.4.2000).
- Bidders short-listed by 15th May, 2000. (delayed by one month).
- IM sent to short-listed bidders by 13th June, 2000. (delayed by 13 days).
- AGM held on 9th May, 2000.

Items not completed :

- To receive bids from short-listed bidders was scheduled by 30th July, 2000. It is now expected by 15th December, 2000.
- To enter into MOU with Strategic Alliance Partner (SAP) was scheduled by 31st October, 2000. This has been delayed due to resistance from employees and extension of time for selection of bids.

Divestment of Salem Steel Plant (SSP)

Items completed :

- Merchant Bankers appointed on 27th March, 1999
- EOI issued on 19th November, 1999. Corrigendum issued on 29th January, 2000. (last date for receiving EOI was 18th February, 2000).
- AGM held on 9th May, 2000.
- Bidders short-listed.

Items not completed :

- IM was to be sent to short-listed bidders by 31st July, 2000. IM is to be sent to the short-listed parties after signing Confidentiality Agreement (CA). One party has signed and other two are yet to be signed.
- The divestment process is being delayed because of prospective bidders inability to complete the due diligence on account of resistance from employees and local bodies.

Divestment of Alloy Steels Plant (ASP)

- The current focus is on implementation of internal turn-around plan of these plants.

Divestment of Visvesvaraya Iron & Steel Plant (VISL)

- The current focus on implementation of internal turn-around plan of VISL. The divestment process will be initiated from January, 2001.

Divestment of Rourkela Fertilizer Plant

- The divestment of fertiliser plant of RSP is being implemented in two phases. En-route to divestment an Ammonia cracking plant of RSP is being installed. AGM conducted on 9th Mary, 2000 and resolution passed. Approval of drawing was to be accorded by 31st October, 2000. It is now expected by 31st December, 2000. This has been delayed but SAIL expects to complete the project by the scheduled time i.e. 31st March, 2001. The process of divestment of fertiliser plant will start by 31st January, 2001.

Conversion of IISCO into a Joint Venture, with SAIL holding minority shareholding

Items completed :

- Merchant Bankers appointed on 31st March, 2000.
- EOI issued on 14th April, 2000. (last date for receiving EOI was 31st Aug, 2000)
- Bidders shortlisted on 10th October, 2000. (delayed by about two months).
- IM issued.

- Confidentiality Agreement (CA) has been sent to the short-listed bidders.

Items not completed :

- To receive bids from short-listed bidders was by 31st October, 2000. It is now expected by 31st January, 2001. The time has been extended in the advice of Merchant Bankers. However, the project would be completed by the scheduled time i.e. 30th June, 2001.

SCENARIO OF INDIAN IRON AND STEEL INDUSTRY

After three long years of stagnation domestic demand for steel has finally packed up. This is in reflection of the improved performance by the general economy. Demand for steel as approximated by the variable `apparent consumption`(defined as `production + imports-exports`. Adjusted for changes in stock held by main producers) has shown an increase of about 7% between 1998-99 and 1999-2000.

Demand for iron and steel has grown at almost double the rate during 1999-2000 as compared to the previous year. The acceleration in the rate of growth has taken place in spite of the fact that GDP growth has, in fact, decelerated from 6.8% in 1998-99 to about 5.8% during 1999-2000. Even when a laggard `Agriculture` sector pulled down the overall growth in the GDP, the iron and steel industry enjoyed a modest growth on the back of a limited resurgence in the manufacturing industries, especially some of the leading steel-consuming sectors, during 1999-2000. The sectors impacting iron and steel the most, have shown increasing growth rates in 1999-2000 compared to the year before.

The Indian iron and steel industry bettered its performance in all areas during 1999-2000 as compared to the previous year. Apparent consumption of finished steel also increased but it grew at a modest rate of 6% as opposed to the double-digit growth rates logged by production (11%), exports and imports.

However, the increased production during 1999-2000 has been reflected not so much in domestic consumption.

The overall market scenario for 1999-2000 can at best be termed as challenging, particularly for the steel producers in the country. For the buyers the availability of steel, either from domestic sources or from imports, was abundant except that the demand for their end products was much less than that warranted by their target levels. The slackness of domestic demand predominated the Indian steel market..

A modest recovery in prices (approximately 4 to 5%) took place in January 19999, largely due to the impact of floor prices on imports introduced in December 1998. This upturn was not maintained in Q-1 and Q-2 of FY 1999, as there was not much pick up in domestic demand. International prices, particularly of HR Coils showed an upward trend since the later half of FY 1999.Firming up of international prices made exports of HR Coils viable.

It may be concluded that the optimism shown by the steel market in the last quarter has pulled up the overall performance of the market for the full year.

A big push in the domestic demand is yet to be perceived. So long as the excess supply is taken out of the country, domestic sales and price realizations would maintain a reasonable growth. This however does not instill any confidence in creating fresh capacity, but may lead only to a high utilization of existing capacity as exports will continue to form a significant part of the total production in the coming months. The push in domestic demand has to surface by the second quarter of current fiscal for it to have a significant beneficial effect on the domestic iron and steel industry.

The growth rates achieved in manufacturing have hauled up the overall industrial growth rates. This trend has also been corroborated by the overall market sentiments that captured this upbeat mood in the later half of the year. The sustainability of the rising expectations remains a moot question. Of major concern is the poor performance in the capital goods segment in H-2 of 1999-2000.

A level of approximately 26.5 million tonnes of finished steel consumption has been projected for 2000-01 in the domestic market.

The entails a growth of more than 6 percent over the previous year with the following break-up:

Projected level in 2000-01 (million tonnes)

The availability (including exports) from the indigenous sources is likely to meet fully the domestic demand, except in a few special sizes and grades in CR, Plates, CRNO, GP, Pipes and long products.The price advantaged imports of HR Coils, CR Coils, CRNO, TPWW would, however, continue to pose marketing problems for the domestic manufacturers as production growth estimated in the world market for 2000-01 shows an upward trend.

The rising trend of prices in the domestic market in flat categories has also been halted. It does not need any reiteration that the limit to an export led growth has almost been reached and the behaviour in domestic demand and price realization would crucially depend on fresh investments in steel-intensive activities in the country.